

**REPORT OF THE AUDIT OF THE
FULTON COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 19, 2005



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
FULTON COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES

April 19, 2005

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Fulton County Sheriff as of April 19, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,293,773 for the districts for 2004 taxes, retaining commissions of \$89,086 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,215,970 to the districts for 2004 Taxes. Taxes of \$3,599 are due to the districts from the Sheriff and refunds of \$16,506 are due to the Sheriff from the taxing districts for 2004 taxes.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by a security bond.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Harold Garrison, Fulton County Judge/Executive

Honorable Robert Hopper, Fulton County Sheriff

Members of the Fulton County Fiscal Court

Independent Auditor's Report

We have audited the Fulton County Sheriff's Settlement - 2004 Taxes as of April 19, 2005. This tax settlement is the responsibility of the Fulton County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Fulton County Sheriff's taxes charged, credited, and paid as of April 19, 2005, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Harold Garrison, Fulton County Judge/Executive
Honorable Robert Hopper, Fulton County Sheriff
Members of the Fulton County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated December 2, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discuss the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 2, 2005

FULTON COUNTY
ROBERT HOPPER, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

April 19, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 221,189	\$ 337,556	\$ 921,994	\$ 224,618
Tangible Personal Property	29,464	47,069	140,635	120,238
Intangible Personal Property				25,550
Fire Protection	451			
Franchise Corporation	51,722	75,055	198,851	
Bank Franchises	17,750			
Penalties	1,483	2,204	6,191	1,583
Adjusted to Sheriff's Receipt	144	263	(6)	2
Gross Chargeable to Sheriff	<u>\$ 322,203</u>	<u>\$ 462,147</u>	<u>\$ 1,267,665</u>	<u>\$ 371,991</u>
<u>Credits</u>				
Exonerations	\$ 778	\$ 1,188	\$ 3,563	\$ 1,312
Discounts	4,006	5,599	15,790	5,577
Delinquents:				
Real Estate	7,171	10,478	28,253	7,281
Tangible Personal Property	336	537	1,913	382
Intangible Personal Property				10
Uncollected Franchise	6,107	8,288	21,664	
Total Credits	<u>\$ 18,398</u>	<u>\$ 26,090</u>	<u>\$ 71,183</u>	<u>\$ 14,562</u>
Taxes Collected	\$ 303,805	\$ 436,057	\$ 1,196,482	\$ 357,429
Less: Commissions *	13,199	18,532	41,877	15,478
Taxes Due	\$ 290,606	\$ 417,525	\$ 1,154,605	\$ 341,951
Taxes Paid	288,668	415,493	1,170,293	341,516
Refunds (Current and Prior Year)	232	334	818	240
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 1,706</u>	<u>\$ 1,698</u>	<u>*** (16,506)</u>	<u>\$ 195</u>

*, **, and *** See Next Page.

The accompanying notes are an integral part of this financial statement.

FULTON COUNTY
 ROBERT HOPPER, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2004 TAXES
 April 19, 2005
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,087,291
3.5% on	\$	1,196,482

** Special Taxing Districts:

Library District	\$	170
Health District		100
Extension District		255
Soil Conservation		999
Mental Health		174
		<hr/>

Taxes Due Districts	\$	<u>1,698</u>
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*** School Districts:

Fulton County School	\$	(8,530)
Fulton Independent School		<u>(7,976)</u>

Refunds Due Sheriff	\$	<u>(16,506)</u>
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FULTON COUNTY
NOTES TO FINANCIAL STATEMENT

April 19, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 19, 2005, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral provided by surety bond which named the Sheriff as beneficiary/obligee on the bond.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
April 19, 2005
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 27, 2004 through April 19, 2005.

Note 4. Interest Income

The Fulton County Sheriff earned \$889 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of December 2, 2005, the Sheriff owed \$60 in interest to the Fulton Independent School District, was due a refund of \$69 from the Fulton County School District and was due a refund of \$2 in interest from his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Fulton County Sheriff collected \$9,612 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Fulton County Sheriff collected \$570 of advertising costs and \$1,025 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2004 taxes, the Sheriff had \$1,191 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION

FULTON COUNTY
ROBERT HOPPER, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of April 19, 2005

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating control be implemented to offset this internal control weakness:

- The Sheriff should compare the monthly tax reports for his property and franchise taxes to his computer printout and tax receipts ledger and tax disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the monthly tax reports.

Sheriff's Response:

I will initial these documents in the future.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Harold Garrison, Fulton County Judge/Executive
Honorable Robert Hopper, Fulton County Sheriff
Members of the Fulton County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Fulton County Sheriff's Settlement - 2004 Taxes as of April 19, 2005, and have issued our report thereon dated December 2, 2005. The Sheriff prepares his tax settlement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fulton County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The following reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit
Of The Financial Statement Performed In Accordance With
Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fulton County Sheriff's Settlement - 2004 Taxes as of April 19, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 2, 2005

